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Britain's Experience of Public Ownership



An Address by
W. Richmond Smith
Before The Empire Club, Toronto
1906

Britain's Experience of Public Ownership

An Address by W. Richmond Smith before the Empire Club, Toronto. He endorses the principle but finds it unsuccessful in actual operation.

At a recent meeting of the Empire Club, Toronto, an address on the subject of "Municipal Ownership and Operation of Public Franchises" was delivered by Mr. W. Richmond Smith, the well-known journalist and war correspondent. Mr. Smith has made a careful study of the conduct of municipal enterprises in Great Britain and elsewhere, having written a book on this subject, and his fearless and thoughtful discourse was listened to with great attention by the large audience present. The chair was occupied by Rev. Professor Clark of Toronto.

The views expressed by Mr. Richmond Smith are important, especially on account of the carefully gathered facts with which he supported them. After referring briefly to his appreciation of the invitation extended to him by the club, Mr. Smith said:

"At the very beginning, I wish to state, and emphasize the statement, that I am a firm believer in the principle of municipal ownership of all essential public utilities. Further, I regard it as little short of criminal for any Municipal Council to part with the ownership and ultimate control of a franchise involving the use of the streets for the creation of a public service used by a majority of the citizens."

"A public utility is a service created to supply a convenience to the citizens

which involves the use of its public streets in the construction of a permanent plant for the supplying of that service.

"An essential public utility is a service created to supply a necessary public need, which involves the use of the public streets, and which is used by a majority of the ratepayers. Essential public utilities are confined to services for the supply of water, sewage facilities, light, and urban transportation by street cars. There are no other public services, involving the use of the streets, which are generally used by the citizens to such an extent that, was the service given by the municipality, the cost or any portion of the cost could without injustice be made a charge upon the general tax rate.

"The water supply and sewerage systems of any municipality ought, in my opinion, to be both owned and operated by the municipality, under the supervision and amenable to the instructions of the Medical Health Department, because both these services are universally used, and are prime essentials to public health. It is entirely a secondary matter how much a pure water supply and an adequate sewerage system costs, because both are a matter of life and death to the community.

A Rule to Go By.

"While holding strongly to the principle that the equity of redemption in

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and ultimate control of all franchises for the establishment of public services which involve the use of the streets should remain vested in the municipality, I believe that sound municipal administration dictates that no municipality has any right to undertake the conduct of a public service which is not used by at least a majority of the ratepayers, for in the event of such a service being conducted at a loss, that loss is bound to be met out of the revenue raised from a general tax rate. This sound rule is, I know, continually ignored, and successful municipal enterprises outside its restrictions are constantly urged in justification, but the fact remains that once a municipality ignores this rule, over-municipalization is almost bound to be the result, and over-municipalization always has and always will work a great injustice to the poorest ratepayers in the community, and strike at the very root of municipal credit. It is because I am firmly convinced of this, after a close and careful study of municipally-conducted enterprises in Great Britain, that I am here to-day. I know that my opinions on the question are not popular with a large number of people in Toronto, to whom the conduct of public services by the municipality is regarded a panacea for all the ills which result, or which are assumed to result, with existing conditions. The fact remains, however, that the result of over-municipalization of public utilities has struck a serious blow at the whole fabric of municipal credit in Great Britain, despite the fact that such municipal enterprises are subject to the closest supervision and the severest restrictions of the Imperial Parliament at Westminster. We in Canada must remember that the popular desire for municipally-conducted public services was felt in the Mother Country long before the idea had birth in Canada. It is most important, therefore, if we are to profit by experience on this question, that serious attention should be paid to the experience of Great Britain, bearing in mind always that the safeguards thrown around such enterprises by the National Government

there have no parallel whatever in our country.

Conditions in Great Britain.

"Before even attempting to draw a parallel between the results of municipally-conducted enterprises in Great Britain and similar undertakings in Canada, it is absolutely necessary to estimate and appreciate the wide difference in both general and local conditions, otherwise the comparison is bound to rest upon a most misleading and fallacious basis.

"The first of these essential differences in conditions lie in the source from which all municipal legislation emanates. In Great Britain the Central Parliament at Westminster is the sole and only source, while in Canada the right to legislate for all rural and urban communities is vested in the Provincial Legislatures. Without going into all the reasons why, it seems obvious that the fact that all British municipal legislation emanates from the Central Parliament, which is, of course, free from all sectional prejudices, gives it an atmosphere of judicial fairness which could not be expected in similar legislation in Canada which emanates from Provincial Legislatures in which rural and urban jealousies and sectional differences play so important a part.

"The constitution of the Mother Country is the result of the gradual evolution of representative institutions from the comparative absolutism of a paternal monarchy. It is not written in a single document, but is contained in a multitude of Parliamentary enactments upbuilt into a system of government as the process of evolution proceeded. The system of local government in the United Kingdom as it at present exists, was evolved in the same manner as the constitution, was in fact an essential and component part of the results of the great struggle of the English people for a representative system of national government. The Canadian Constitution is contained within the four corners of an Act of the Imperial Parliament. That Act clearly and specifically de-

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lines the legislative powers and duties of the Federal and Provincial Parliaments.

"In the British system of local government gradually evolved from the experience of the past and carefully upbuilt in accordance with modern democratic institutions to suit every local condition, we have a system which contains all the wisdom of the old with all the utilitarianism and democratic vigor of the young, combined with a remarkable adaptability to local conditions and even local prejudices.

"In Canada, though our system of local government was fashioned after that of the Mother Country with changes made to adapt it to different conditions, it is but a very imperfect and ready-made article when compared to its prototype.

"The greater adaptability of the British system, the wealth of experience which lies in the statutory evolution of its upbuilding, enables British Parliament to so perfect the mechanism of the system that the public interests are more closely safeguarded and more adequately served than under our less adaptable system of Canada.

Uniformity of Policy.

"The manner in which Municipal Councils are constituted under the specific terms of general Parliamentary enactments in Great Britain, ensures a degree of uniformity and continuity of municipal policy which does not exist under our Canadian system. All Municipal Councils in England consist of a Mayor, aldermen and councillors. The councillors are elected for a term of three years, and a third of the number go out of office each year. The number of the Council is fixed by charter, and varies widely, though it is usually more or less in proportion to the size of the municipality. The councillors are elected by the popular vote of the ratepayers for a three-year term, and the aldermen by the councillors and non-retiring aldermen for a six-year term. The duly elected councillors and aldermen together elect the Mayor, who holds office for one year only. The office of

councillor is regarded as a kind of apprenticeship, and a councillor has to be elected perhaps two or three times before he is regarded as eligible to sit upon the aldermanic bench. There is no distinction between the duties of a councillor and an alderman, except the length of their terms of office. The Mayor has no administrative duties except those which come to him through custom. He is simply the official representative of the municipality, and the presiding head of the Council.

"Continuity of personality and municipal policy is favored by the retirement of councillors by thirds. This is further assisted by the aldermanic system. Instead of the aldermen retiring simultaneously, one-half of the whole number go out of office every third year, the half to go out being the aldermen who have been in office for the longest period without re-election. Each councillor and non-retiring alderman has as many votes as there are aldermanic seats to be filled. The outgoing half of the aldermen may not vote, but the half who remain in office may. This provision is an extreme example of that desire for continuity of municipal policy which pervades the English system of municipal government. The result is often that when parties are nearly evenly divided the party in office, with the help of the non-retiring aldermen, can often obtain a fresh lease of power, although the elections have placed it in a minority as regards popularly elected councillors.

"Whether a general system would harmonize with the conditions under which municipalities are constituted in Canada is an open question, but it seems fairly evident that the English system gives a much greater amount of continuity of policy than the system under which we in Canada work. Continuity of policy is one of the essentials to the successful management of a commercial undertaking, whether in the hands of a private owner or an elective Municipal Council. It is inconceivable, for instance, that a commercial undertaking should be managed by a series of temporary committees, each of which would have to start with a new policy and a new set of personnel. The English system, by ensuring continuity of policy and personnel, is well adapted to the requirements of a commercial undertaking.

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Pacific or the Grand Trunk Railway Company could be successfully conducted by a Board of Directors whose personnel and policy changed each year, as the personnel and policy of our Municipal Councils in Canada do.

British Safeguards.

"In addition to the general safeguard which results from the fact that all municipal legislation is vested in the central Parliament at Westminster, the British municipal system possesses another and extremely important means of control over the tendency of individual municipalities to embark in undertakings considered unwise in the public interests. The gradual evolution of the municipal system has resulted in the creation of a special department of the central Government known as the Local Government Board, which has power to inspect the finances and administration of all Municipal Councils, to keep itself informed of the work of such Councils, compel them to furnish proper statistics, and to exercise certain statutory rights of confirmation or refusal in respect, for example, of local loans or by-laws, and generally to see that they confine their business and expenditures to the purposes and within the limits prescribed by Parliament. The power of regulation by order is also possessed by the board as an auxiliary to that of inspection; but it is only exercised within limits strictly defined by statute. Broadly speaking, the board performs its functions as a guardian of the public rights and interests without resorting to the imperative mood. Though it has no power to compel a local authority to carry out the law, or refrain from breaking it, that power is usually exercised by it through the medium of the courts by issue of a writ of mandamus or by obtaining an injunction. It can only venture to use administrative force in exceptional cases defined by statutes and under forms duly authorized by law. Inspection taken in its widest sense, so as to include enquiry as well as supervision and control, is the ordinary function of the board, and it is under

the form of inspection that the administrative interference of the central authority in the province of local government usually manifests itself.

"There is another permanent department of the central Government which exercises practically the same functions with respect to certain departments of municipal administration as the Local Government Board. The Board of Trade is charged, among other things, with supervision of the administration of all general laws dealing with public safety, the rates charged for public services, such as lighting and tramway locomotion, whether supplied by a municipal corporation or a private company. In this way we have the anomaly of the Local Government Board supervising the finances and the Board of Trade the administration of some of the enterprises of municipalities.

The Effect on Credit.

"The abundance of wealth in the Mother Country always seeking investment has in the past made it an easy matter for even the smaller municipalities to borrow money at low rates of interest. This facility for obtaining cheap money has been a strong incentive to municipalities to launch out into extensive commercial and trading ventures under publicly owned franchises. The result has been that the funded municipal debt of the country has increased by leaps and bounds. The rate of increase has been so great that during the session of Imperial Parliament in 1900 the matter was brought to the attention of the Government, and strong opinions were expressed, to the effect that the popular demand of municipalities for power to go into all sorts of municipal enterprises on their own account was so rapidly increasing the municipal debt that it was becoming a menace to the whole structure of municipal credit. The immediate result of this discussion was the appointment of a joint select committee of the House of Lords and the House of Commons to enquire into the whole question of the commercial trading done by municipalities and its effect upon municipal credit. This committee held a series

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of sittings in 1900. It was shown that as a result of the popular desire of municipalities to conduct undertakings under publicly owned franchises the municipal debt of the country had increased from \$866,015,000 in 1885 to the stupendous sum of \$1,583,510,000 in 1901, or about 56 per cent. of the proportions of the total national debt at that time. It was also shown that the municipal system of auditing accounts enabled Municipal Councils to cover up for years the unprofitable nature of undertakings conducted under publicly owned franchises. The committee in its first report to Parliament recommended the institution of a new system of audit of municipal accounts under Governmental control.

"If such an enormous increase in the funded municipal debt of the Mother Country could result, when safeguards, the result of centuries of experience, are thrown around the undertakings of Municipal Councils in the interest of the ratepayers, both with regard to administration and finance, what would be the result in Canada, when we have not one-tenth the safeguards and no supervision by a central Government whatever over either the administration or finances of such municipally-conducted undertakings, and no system at all of Governmental control of municipal audit?

Strong Men in Council.

"There is another point of general comparison which is so important that it must be mentioned before I leave this phase of the question, and that is the class of men who are elected to make up the boards of councilors and aldermen of Municipal Councils in the Mother Country. It is well known that in Great Britain such Councils are as a rule composed of men who, while graduates from the business world, are to a greater or less extent men with sufficient time at their disposal to give municipal affairs the closest attention. Municipal honors are more highly prized than in Canada by the class of men whose services are most to be desired in municipal management, and thus it is found in many cases that men whose names are widely known in com-

merce, in professional circles, and in the higher branches of politics are serving upon the Municipal Councils in their home communities. Such a condition is impossible in a young country like Canada where the most able men are usually so fully occupied in business or professional life that they consider themselves unable to spare much time in the service of the civic community in which they live. The result of this condition undoubtedly is that Municipal Councils in Canada are not as a rule composed of men so well equipped to deal with broad questions of finance and administration as are those of the Mother Country.

"The question whether a municipality should create and conduct public services outside water and sewage cannot be decided upon any consideration of principle. It is simply a matter of business and public expediency. What the public has a right to expect is that it should get the greatest possible return from the capital invested in what is essentially a business enterprise, owned, established and conducted for the ratepayers. Under exceptional circumstances it is quite possible to conceive of a municipality creating and conducting its essential public services along business lines, which would ensure a better service and a larger monetary return than could be obtained from a private company working the same enterprise under a terminable lease. It must be admitted, however, that experience has shown that elected Municipal Councils, even in the Mother Country, are not able to secure as satisfactory results from the conduct of commercial enterprises as can be secured by well organized private companies. The reasons are many and obvious. In the first place, a commercial enterprise conducted by an elected Council, which is continually changing its personnel, cannot have the same continuity of policy and the same determined and persistent striving along well-thought-out and permanent lines. In the second place, an elected Council which owes its existence to the popular vote of the

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ratepayers, including the customers and employees of the enterprise, is compelled continually to sacrifice what it knows to be sound business methods of management to public opinion. It is quite true that it ought not to be the sole object of a municipality to operate its public services so as to make money, but it certainly ought to be the object of every Council to give the ratepayers the best service that can be had at the lowest cost. In order to do that a good business management is just as essential as it is with a private company. Taking into account the disastrous experience of the Mother Country in the municipal conduct of public services, and remembering the safeguards to the public interests which exist there and do not exist in Canada, I am firmly convinced that municipalities in this country can secure better services and greater monetary returns by having their public utilities conducted under lease by private companies. In addition, they would escape the unhappy experiences of the Mother Country due to over-municipalization as a result of the popular demand which so often follows the taking over by a municipality of the conduct of even its most essential public services.

The Crux of the Question.

"It will doubtless be pointed out that the experience of municipalities in Canada in dealing with private companies for the conduct of their public services has not been in many cases satisfactory, and that private companies always insist upon giving the municipalities the worst end of the bargain. That is doubtless true in many cases, but who is to blame? The municipality is the proprietor and the operating company the employee. To my mind the trouble has always lain in the settlement of the terms of the lease under which the private company works. Here is the crux of the whole question. If the lease is properly drawn so that the company can be legally held to fulfil its conditions, and those conditions are so worded as to give the municipality a good service and fair monetary returns, there ought to be no se-

rious trouble. And one thing is absolutely obvious, if a Municipal Council has not the public spirit and business ability to frame such a lease as will give satisfaction to the ratepayers, both with regard to the service given and the monetary returns, it certainly will not have the public spirit and business ability to conduct that service in the interest of the ratepayers. In the drawing of the lease there is only one occasion where mistakes can be made; in the conduct of a public service there are a thousand opportunities for mistake every year.

"The differences in local conditions in the various cities of the United Kingdom which make for the success of municipally conducted enterprises are almost as important as the differences in general conditions. They, too, must be taken into consideration before fair comparisons can be instituted with municipally-conducted undertakings in any Canadian city. Take the City of Glasgow, for instance. With its locally governed outlying suburbs, all of which are served by the municipally-conducted services of the city, it has a gross population of something over a million. According to the last census returns, the city itself had a population of 780,000, and this large population is confined within the extraordinary small area of 12,700 acres. The population of the City of Toronto is somewhere about 260,000, and its superficial area, exclusive of water, is 10,800 acres. This concentration of the population in Glasgow is due to several causes, the principal being the confinement of the city proper within a belt of suburban municipalities, which have always stubbornly held to their own autonomy, and compelled the city to grow back into itself instead of expanding its bounds, as our Canadian cities do. The result is a tremendous massing of population, especially in the poorer districts, where there are literally miles of streets crowded with huge apartment houses, which swarm like rabbit warrens with thousands of families who live in one or two rooms. Even among the well-to-do wage-earning class the same predilection for flat-houses is very marked, and even in the best residential districts it is possible to see whole streets occupied by

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terrace after terrace of flat-houses of a better sort, where dozens of families use a common stairway to reach their apartments. In nearly every large centre of population in Great Britain the same conditions exist.

"This massing of population within restricted areas gives an enormous advantage in supplying such public utilities as water, light, tramways, which are used by a large majority of the ratepayers. Not only is the capital outlay in all cases smaller, considering the numbers of the population served, but the source of revenue per mile of service is very much greater than it could be in any of our Canadian cities.

"The City of Glasgow is admittedly one of the best-governed cities in the world. The ablest and most influential citizens regard it as an honor to sit around the Council Board and contribute largely of their time and business experience in the administration of the city's affairs. Glasgow is not suffering from maladministration of its affairs, but from an over-indulgence in municipalization, carried into the realm of speculative enterprises, which always involves the investment of a large amount of capital and the running of many risks. There is scarcely any limit to Glasgow's municipal activity. It runs scores of municipal enterprises of all kinds, and this fact is the principal cause of an enormous increase in the city debt, which rose from \$27,240,135 in 1890 to \$64,376,095 in 1900, while the assessable rentals in the city during that period only increased from \$17,277,550 to \$24,764,820. Thus, while the city's debt increased by over \$37,000,000 in that period, the assessable rentals only increased by something like \$7,500,000. In the year 1890 the rates were 12 cents on the dollar on rentals of \$50 and upwards, and 8 cents and 8 mills or the dollar on rentals of less than \$50. In the year 1900 the first rate had risen to 16 cents and 4 mills on the dollar and the second to 13 cents on the dollar.

Glasgow's Gas Enterprises.

"The City of Glasgow began to supply the citizens with gas in 1869. The enterprise was one of the most conservatively run of any of the municipal undertakings. The capital expenditure has been something like \$11,000,000. All

the net profits have been devoted to a fund for depreciation on plant and works, which amounts to something over \$6,500,000. Last year it was found that the reduction in the price of gas to consumers to 58 cents per 1,000 cubic feet for lighting and 50 cents for other purposes had resulted in a deficit of something over \$60,000 in a single year. It also transpired that the greater part of the depreciation on plant fund would have to be expended on extensive renewals.

Glasgow's Municipal Tramways.

"Perhaps the most successful of Glasgow's municipal undertakings is its tramway system. When the first tramways were built in 1871 they were, under the terms of the initial legislation, financed on the credit of the common good fund, which is really the corporate estate of the city. In 1894, when the city took over the conduct of the tramways, the enterprise continued to be financed out of the common good fund. Since that time, therefore, there has always been a grim necessity why the enterprise should be a commercial and financial success. Under no circumstances could any loss sustained by the tramway enterprises become a charge upon the general tax rates. The result of this fact was that the manager of the Glasgow tramways, even in the beginning, was given practically a free hand in the management of the undertaking. Of all the municipal enterprises in Great Britain, the Glasgow tramways are run more nearly upon the close business lines which a private company would adopt than any other. Yet the total amount of net profits paid to the credit of the common good fund by the tramway undertaking since the city took it over down to 1903 was \$533,800, or about \$59,312 a year for nine years. The amount paid to the City of Toronto during the past nine years by the Toronto Railway Company for the use of its street railway franchise has been \$1,833,826, or a yearly average of \$203,758.

"When it comes to a comparison of fares charged it is difficult to arrive at any basis of comparison. The Toronto company charge three flat fares for a

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ride of any distance and transfers are given over all lines in the city to enable the passenger to complete his journey from the payment of a single fare. These flat fares are 41-6c for an ordinary ride at any time, 31-6c for rides during limited periods and on Sundays, and 21-2c for children, or an average fare, exclusive of children, of about 41-10c for a ride of any distance. In Glasgow there is a graduated scale of fares, beginning with 1c for a little over half a mile, 2c for two miles and a third, 3c for three miles and about a half, 4c for four miles and about a half, 5c for five miles and almost two-thirds, 6c for six miles and almost nine-tenths, 7c for eight miles and almost a third, and 8c for a fraction over nine miles. Thus the average fare paid per mile is a little less than a cent. In the second place, while the Toronto system is purely urban, that of Glasgow is urban, suburban, and interurban, and serves a population of 1,072,000. The length of the average ride on the Glasgow tramway system, including the suburban and interurban lines is a little less than a mile. It is evident, therefore, that while a small average fare for a short average ride makes money for Glasgow tramways, because of the congestion of the population within the city proper, the same small average fare for the same small average ride would be of no use in Toronto at all. In Glasgow it costs 8c to ride a fraction over nine miles, while in Toronto a ride of any distance costs 41-10c, with privileges of transferring, which Glasgow does not possess. It is hard to determine which of the systems of fares is the cheapest, but it is evident that the system which suits and pays in Glasgow would neither suit nor pay in Toronto.

Municipalization of Telephones.

"The municipalization of the telephone service is, to my mind, one of the most dangerous experiments a large and growing community can possibly undertake. In the first place a telephone service cannot be classed as a public utility. It necessitates the use of the public streets, but it is not a service which is used by a majority of the ratepayers in any city in the

world. In Toronto, for instance, there are only six telephones used to every one hundred of the population, and that is a larger proportion than in the City of New York, where the percentage is only four in the hundred. Suppose a municipal telephone service was established in Toronto, and the number of present users doubled or even trebled, would it be fair to make up deficits in the operation of that service out of the general tax rates, compelling thousands of the very poorest ratepayers to pay for the maintenance of a service they never have occasion to use? Until the cost of telephones is greatly reduced so as to bring them into general use, as lighting and street car services are used, this particular service cannot be classed as a public utility. It is very doubtful whether large and growing individual municipalities will ever be able to supply telephone services at a sufficiently low cost to bring those services into general use, because experience has shown that the cost of equipment and maintenance increases in proportion as the number of subscribers increases at such a rapid ratio that the cost of the telephone to the individual subscriber is likely always to remain so high as to prohibit anything like general use.

"This, however, is not the only difficulty in the way of the establishment of a successful municipal telephone service in a community where the population is continually increasing and the telephone area constantly enlarging in more or less unexpected quarters, as is the case in all populous communities in Canada. The very nature of the service involves an amount of expert skill in working out progress plans of probable increases, which have to be taken into consideration in the installation of plants and the arrangement of equipment, which the individual knowledge of local municipal experts having imperfect access to the experience of similar undertakings in other and larger centres of population, might easily result in the enormous loss of capital and a consequent increase in the cost of the service.

"Take the telephone problem in the City of Toronto, for instance. The tele-

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phone area consists of the city and its immediate suburbs, having an estimated population of say 250,000 at the present time. The Bell Telephone Company have in operation in this area some 15,000 telephones, which is equal to the proportion of six telephones for every one hundred of the population. The engineers of the company long ago, when the number of telephones in use was much smaller than now, made a special study of local conditions with a view to determining the proper layout of a plant necessary to provide for future increases. This necessitated years ago the installation of much plant which is only now coming into use. The present progress plans of the company are based upon the population figures for the past twenty years. As the linear rate of increase has slightly fallen off during the last decade, a flat linear rate for the future equal to that of the last decade was assumed, which brought the estimated population in 1920 up to about 375,000. Working upon the same lines, it was assumed that the telephone development will increase from six per cent. to about 15 per cent. of telephones, which would give in 1920 a service of 56,250 telephones in the area which has now only 15,000 telephones. In the gradual working out of the telephone problem in the City of Toronto along these lines all plant and equipment is so planned as to admit of the handling of a service comprising 56,250 telephones in 1920. If it is found that the estimated increase of demand is greater or less than the development plans show, either from experience of other companies elsewhere or from some change in local conditions which are not in accord with past experience, the development plans have to be changed. For these reasons large capital expenditures have to be made continually in plant which is not used at all for years after it is installed, in order to provide for increases in the service which occur years after.

"There is probably no service designed as a convenience to the public that is in so evolutionary a state as the telephone, and in this fact consists one of

the greatest dangers of a municipal service. In connection with the American Telephone and Telegraph Company, there is an organization designed as a sort of clearing house for engineering and other expert information relating to all telephone equipment and operating methods, which is constantly referred to by the various telephone companies on this continent, including the Bell Telephone Company of Canada. The benefits of such a clearing house can hardly be estimated by anyone not familiar with the enormous mechanical difficulties of a growing telephone service, its comprehensive reports, exhaustive tests and exact information having been found absolutely essential to the economical and successful development of the telephone business. The absence of this facility would greatly increase the difficulties of a municipal service of any considerable size, owing to the costly and continuous errors which are sure to be made in the installation and equipment of a telephone system.

Glasgow's Experience.

"The experience of the city of Glasgow furnishes a good example in this connection. It was the first city in the United Kingdom to establish a municipal telephone undertaking. Some years, from 1893 to 1900, were spent by the city in obtaining the consent of the central government, and even then a proviso was inserted in the license limiting the life of the enterprise to thirteen years, at the end of which time, 1913, it is the intention to nationalize the telephone services of the United Kingdom.

"Notwithstanding this short lease of life, the popular tendency towards municipalization at that time induced the city to proceed with the enterprise. The services of an expert were engaged, who advised the installation of a call-wire system, which had already been discarded as unsatisfactory in Philadelphia and other cities of the United States. About \$1,354,690 were expended in installing a plant with a capacity of 9,000 subscribers. Telephone rates were immediately reduced by one-half as compared with those previously charged by a private com-

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pany holding a franchise. As the private company, however, remained in the field, business houses were compelled to put in two telephones in order to secure the full complement of calls which the dual system afforded.

"It was in 1903 that the difficulties of the municipal system really began. The Council then began to discover that it had not secured the best system in the first place. Then the capacity of the plant was exhausted, and it was face to face with almost a complete renewal or substitution at a great capital expenditure in order to give a satisfactory service and provide for the increases in the number of subscribers. During a discussion in the City Council in that year over the telephone accounts, a member of the Telephone Committee, Baillie Burrell, estimated that in order to come out even at the end of the telephone lease without further capital expenditure upon plant, and taking into account the amount the city would receive from the Government when the system was taken over, it would be necessary to put away for depreciation on plant alone some \$740,000. The City Council since that time has steadfastly refused to make any large expenditure on capital account, principally because such expenditure, though necessary, would have brought down upon them the disapproval of the majority of the ratepayers, who resented the idea that a municipal enterprise, which was used by less than one in sixty of the ratepayers, should become a charge upon the general rates.

"The result to-day is that the municipal telephone system is falling into disuse, because it is unable to give a satisfactory service and meet the increasing demands made upon it. I was told in Glasgow last Summer that the city stood to lose a million dollars upon its municipal telephone undertaking when the system was taken over by the Government in 1913, even after making a fair allowance for all that could fairly be expected in the way of compensation. The initial mistake that Glasgow made was in reducing the telephone rates to subscribers to the actual cost of running what after-

wards proved to be an inadequate exchange, but want of success was also due to lack of experience, though Glasgow's municipal enterprises are supposed to be the most successful of any city in the world.

The Winnipeg Case.

"In this country the case of Winnipeg illustrates the difficulties which face even an expert telephone organization in providing for the wants of a growing community, and gives some conception of what a municipality would have to contend with under similar conditions. In 1896 the Bell Company erected a building and installed a switchboard and plant designed to carry the traffic for six years. After four years it became necessary to install a new switchboard, which was expected to last ten years. The estimated rate of increase continued for only two years, when a wholly unexpected demand for telephones arose, with the result that at the end of five years the capacity of the plant which had been expected to last ten years was exhausted. The company is now extending its buildings, putting in a third switchboard, differing from the old one in nothing but its greater capacity for subscribers' lines.

"Thus it happens that within a period of ten years the telephone development of Winnipeg has involved the installing of three distinct central office plants. The Bell Company, because it does a general business, can use the old boards elsewhere, and thus reduce the loss on plant to a minimum, which the municipality could not do. The fact remains, however, that had the telephone service of Winnipeg been a municipal undertaking the progress of the past ten years would have necessitated a capital expenditure far larger than could possibly have been foreseen when the undertaking was commenced.

"Summarizing the results of municipal ownership, as applied to a telephone service, my own observations have led me to the following conclusions:

"There are, both in Great Britain, the United States, and Canada many small communities which operate municipal services at comparatively low rates, and with, in some instances, at

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least nominal profits. These communities, however, afford no indication of the prospects attending similar enterprises on a larger scale. The very nature of the telephone business is such that the cost of maintenance and management (apart entirely from capital investment) increase rapidly in proportion to increase in business. It is obviously cheaper in proportion to give each one of two hundred subscribers a connection with the remaining 199 than it is to give each one of 10,000 subscribers a connection with the remaining 9,999. There are a dozen reasons for this fact which must appeal to the common sense of any business man.

"These small exchanges, if exposed to suddenly-increased demands, are usually found to be entirely unsuited to supply such demands, except at a considerable or total loss of their switchboard and plant investment. An instance of that is before us now in the case of Port Arthur and Fort William.

"I do not know of a single large community to-day operating a municipal telephone plant with even an approach

to financial success, the difficulties in each case being such as I have outlined in one form or another.

"Furthermore, and of importance, such partial successes as have been made by municipal exchanges of small size have been in each case quite independent of any relation to long distance telephoning, a convenience which is growing very rapidly in commercial use. For the successful operation of long-distance lines uniformity of equipment and management is absolutely essential. The working day of a long-distance telephone wire is necessarily short, being limited to the hours in which people actually wish to converse with one another. Therefore, promptness of service is of paramount importance, and even with the best facilities known it is found that of each working hour an average of 20 minutes is now consumed in seeking and making the necessary connections. To operate such a service between communities having independent staffs, subject to varying rules and methods, would so reduce the capacity of long-distance lines as to render them of little public utility."



